PORTUGAL

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Key Economic Indicators

(Billions of U.S. Dollars unless otherwise shown)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	110.1	102.1	107.5
Real GDP Growth (pct) 3/	3.0	3.6	4.2
GDP by Sector:			
Agriculture	4.4	3.8	3.7
Industry	35.7	33.5	35.4
Services	64.7	59.9	59.0
Per Capita GDP (US$)	11,750	10,890	11,444
Labor Force (000's)	4548	4608	4657
Unemployment Rate (pct)	7.3	6.8	5.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.0	6.6	8.7
Consumer Price Inflation	3.1	2.2	2.4
Exchange Rate (PTE/US$ annual average)	154	175	179
Balance of Payments and Trade:			
Total Exports FOB 4/	24.3	23.2	25.0
Exports to U.S. 5/	0.9	1.1	1.2
Total Imports CIF 4/	35.9	34.9	39.2
Imports from U.S. 5/	1.0	1.1	1.3
Trade Balance	-11.6	-11.7	-14.2
Balance with U.S.	-0.1	0.0	-0.1
External Public Debt	12.8	14.4	13.7
Fiscal Deficit/GDP (pct)	4.2	2.7	2.3
Current Account Deficit/GDP (pct)	5.0	5.5	8.0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	21.4	18.4	18.3
Aid from the U.S.	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

1/ 1998 figures are estimates based on available monthly data in October.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Balance of payments statistics.
5/ Portuguese National Institute of Statistics.

1. General Policy Framework

Twenty-five years ago, Portugal was considered the "poor man" of Europe. The revolution of 1974, however, spawned fundamental economic and social changes and, since joining the European Union in 1986, Portugal has been rapidly closing the gap with its wealthier European neighbors. Since 1993, the country has been in a broad-based economic expansion and is expected to continue to grow at rates higher than the EU average. In addition to robust growth, the economy has experienced structural changes over the longer term. Agriculture and fishing, traditionally important sectors of the economy, have been displaced by manufacturing and, increasingly, by the service sector.

Since joining the European Exchange Rate Mechanism in 1992, Portuguese monetary policy has focused on the intermediate goal of exchange rate stability as a means to price stability. The policy has generally been successful, with the Portuguese Escudo trading in increasingly narrow bands against the German Mark. Since qualifying for the third phase of European Economic and Monetary Union (EMU) in 1998, monetary policy has been guided by convergence of interest rates and inflation rates with the other members. The Bank of Portugal has reduced short-term interest rates in a series of steps in an effort to match an EMU target of approximately 3.3 percent by the end of 1998.

According to the Ministry of Finance, Portugal's mid-term fiscal policy (1998-2000) will focus on ensuring sustainability of public finances through improved management and financial control of public expenditure. The plan, in addition, supports structural reforms in areas such as social security, health, and tax administration. As a result, the Finance Ministry forecasts a reduction in the fiscal deficit to 1.5 percent of GDP by 2000.

Portugal has been running a growing merchandise trade deficit. This is offset, somewhat, by receipts from tourism, remittances from Portuguese workers abroad, and net transfers from the EU. However, the country has been running a current account deficit since 1994 (estimated to equal 8 percent of GDP in 1998) which has been largely financed by changes in the short-term foreign assets of Portuguese banks.

2. Exchange Rate Policy

Portugal's exchange rate policy focuses on stabilizing exchange rates prior to European Monetary Union. On January 1, 1999, Portugal and 10 other European countries entered monetary union; future exchange rate policy will be governed by the European Central Bank.

3. Structural Policies

Portugal has generally been successful in liberalizing its economy. The country has used a large proportion of the 20 billion dollar EU-backed regional development financing for new infrastructure projects. These projects have included new highways, urban renewal for the site of Lisbon-based EXPO 98, rail modernization, subways, dams and water treatment facilities.

Portugal has also pursued an aggressive privatization plan for state-owned companies. In 1988, state-owned enterprises accounted for 19.4 percent of GDP and 6.4 percent of total employment. By 1997, these had fallen to 5.8 percent and 2.2 percent, respectively. The country expects to sell off an additional 2.7 billion dollars in state-owned companies in 1999, including major stakes in electricity, telecommunications, paper, and energy. In turn, several of the former state-controlled companies have taken steps to expand their investments overseas. Notably, EDP (electricity) and Portugal Telcom (telecommunications) have made major investments in their respective sectors in Brazil.

4. Debt Management Policies

Following the removal of capital controls in 1992, lower interest rates abroad led to a shift towards a greater reliance on the use of foreign public debt, which rose to 14.4 percent of GDP by 1997. That debt, however, is more than covered by large gold and foreign exchange reserves (18 percent of GDP in 1997) and has yielded benefits in the form of longer debt maturities and lower costs for domestic debt. As a result, interest expenditure on public debt fell from 6.2 percent of GDP in 1994 to 4.3 percent of GDP in 1997.

5. Significant Barriers to U.S. Exports

The EU Customs Code was fully adopted in Portugal as of January 1, 1993. Special tariffs exist for tobacco, alcoholic beverages, petroleum and automotive vehicles. Portugal is a member of the World Trade Organization.

Because Portugal is a member of the EU, the majority of imported products enjoy liberal import procedures. However, import licenses are required for agricultural products, military/civilian dual use items, some textile products and industrial products from certain countries (not including the U.S.). Imported products must be marked according to EU directives and Portuguese labels and instructions must be used for products sold to the public.

Portugal welcomes foreign investment and foreign investors need only to register their investments, post facto, with the Foreign Trade, Tourism, and Investment Promotion Agency. However, Portugal limits the percentage of non-EU ownership in civil aviation, television operations, and telecommunications. In addition, the creation of new credit institutions or finance companies, acquisition of a controlling interest in such financial firms, and establishment of subsidiaries require authorization by the Bank of Portugal (for EU firms) or by the Ministry of Finance (for non-EU firms).

With respect to the privatization of state-owned firms, Portuguese law currently allows the Council of Ministers to specify restrictions on foreign participation on a case-by-case basis.

Portuguese authorities tend, as a matter of policy, to favor national groups over foreign investors in order to "enhance the critical mass of Portuguese companies in the economy."

Portuguese law does not discriminate against foreign firms in bidding on EU-funded projects. Nevertheless, as a practical matter, foreign firms bidding on EU-funded projects have found that having an EU or Portuguese partner enhances their prospects. For certain high-profile direct imports; i.e., aircraft, the Portuguese Government has shown a political preference for EU products (Airbus).

Companies employing more than five workers must limit foreign workers to 10 percent of the workforce, but exceptions can be granted for workers with special expertise. EU and Brazilian workers are not covered by this restriction.

Portugal maintains no current controls on capital flows. The Bank of Portugal, however, retains the right to impose temporary restrictions in exceptional circumstances and the import or export of gold or large amounts of currency must be declared to customs.

6. Export Subsidies Program

Portugal's export subsidies programs appear to be limited to political risk coverage for exports to high-risk markets and credit subsidies for Portuguese firms expanding their international operations.

7. Protection of U.S. Intellectual Property

Portugal is a member of the International Union for the Protection of Industrial Property (WIPO) and a party to the Madrid Agreement on International Registration of Trademarks and Prevention of the Use of False Origins. Portugal's current Trademark Law entered into force on June 1, 1995, and is consistent with the terms of the trade related intellectual property provisions (TRIPS) of the General Agreement on Tariffs and Trade (GATT). On copyrights, Portugal is in the process of amending national legislation to conform to TRIPS and EU directives. Portugal adopted national legislation in 1996 to extend patent protection to be consistent with the 20-year term specified in TRIPS and is considering legislation to protect test data.

Despite these measures, some problems remain. Software piracy has decreased over the last two years but rates in Portugal remain among the highest in Europe. Furthermore, one branded apparel company reportedly closed its plant in Portugal due to uncontrolled sales of non-authorized merchandise. Despite these problems, however, there is no evidence that Portuguese intellectual property practices have a material impact on trade with the U.S.

8. Worker Rights

a. The Right of Association: Workers in both the private and public sectors have the right to associate freely. The Portuguese Constitution provides for the right to establish unions by profession or industry and trade union associations have the right to participate in the preparation of labor legislation. Two principal labor federations exist. There are no restrictions on the formation of labor federation, on unions to join federations, or on federations to affiliate with international labor bodies. Strikes are constitutionally permitted for any reason, are common and usually short, and are generally resolved through direct negotiations. The authorities respect all provisions of the law on labor rights.

b. The Right to Organize and Bargain Collectively: Unions are free to organize without interference, and collective bargaining is practiced extensively in the public and private sectors. While disputes rarely lead to prolonged strikes, the government may order workers back to their jobs if a strike affects an essential sector such as health, energy or transportation. In such cases, the law requires that laborers provide a "minimum level of service" although there has been disagreement between unions and government in establishing those minimum standards. When collective bargaining fails, the government may appoint a mediator at the request of either management or labor.

c. Prohibition of Forced or Compulsory Labor: Forced labor, including by children, is prohibited and does not occur.

d. Minimum Age for Employment of Children: The minimum working age was raised in 1997 from 15 to 16 years. The government prohibits forced and bonded labor and enforces this prohibition effectively. There are instances of child labor in Portugal, but the overall incidence is low and is concentrated in the clothing, footwear, construction and hotel industries.

The Portuguese Government has worked to eliminate child labor, creating a multi-agency body, the National Commission to Combat Child Labor (CNCTI), to coordinate those efforts. In 1997, the CNCTI expanded its efforts by enhancing cooperation with non-governmental organizations, establishing regional commissions and local intervention teams, and by expanding its public education campaign. The Ministry of Education has also increased its budget allocated to alternative education plans for students in danger of dropping out of school.

As a result of government efforts and a move towards a higher technology industrial base, the number of child labor cases detected by inspectors has fallen dramatically since 1994.

e. Acceptable Conditions of Work: Minimum wage legislation covers full-time workers as well as rural workers and domestic employees ages 18 years and over. For 1998, the monthly minimum wage was approximately $336 and was generally enforced. Along with widespread rent controls, basic food and utility subsidies, and phased implementation of a minimum guaranteed income, the minimum wage affords a basic standard of living for a worker and family. According to the latest figures available, 9.2 percent of the workforce was receiving minimum wage and the average monthly wage in Portugal was $777.

With Christmas bonuses, vacation subsidies and 22 days of annual leave, employees generally receive 14 months pay for 11 months work in Portugal. The maximum workweek for public sector employees is 39 hours and is to be reduced to 35 hours by 1999. Overtime is limited to 2 hours per day or 200 hours per year. The Ministry of Employment and Social Security monitors compliance with these regulations.

Employers are legally responsible for accidents at work and are required to carry accident insurance. Existing legislation regulates health and safety but a lack of funds restricts the effectiveness of enforcement and unions continue to argue for stiffer standards. While the ability of workers to remove themselves from hazardous situations is limited, it is difficult to fire workers for any reason.

f. Worker Rights in Sectors with U.S. Investment: Legally, worker rights apply equally to all sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		364
Food & Kindred Products	83	
Chemicals & Allied Products	217	
Primary & Fabricated Metals	-2	
Industrial Machinery and Equipment	3	
Electric & Electronic Equipment	22	
Transportation Equipment	33	
Other Manufacturing	8	
Wholesale Trade		455
Banking		220
Finance/Insurance/Real Estate		322
Services		45
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,498

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.